our compassionate nation: helping workers transition to new jobs

chapter four

One of the greatest strengths of the American economy has been its consistent ability to adapt and capitalize on new opportunities. Today, rapid technological changes are reshaping the economic landscape, and America's workforce is evolving to compete in this new environment. These transformations and new innovations, coupled with America's entrepreneurial spirit, will create a new and previously unimaginable world of jobs.

The short-term effect of economic change, particularly the loss of a job, however, can be hard on workers, families, and communities. Workers need help adjusting to these economic changes. Strong economic safety net programs give workers temporary financial support, and reemployment services help workers return to work as quickly as possible. Over the past several years, the Administration has worked on both these fronts to alleviate the difficulty associated with a lost job.

Compassionate Economic Development Programs

The Administration invests in training the workforce for the future. The workforce investment system is an essential economic development tool with social benefits. Through a variety of programs, the Administration has proposed initiatives to speed up the delivery of unemployment assistance, which in many past cases used to come too late.

The Department of Labor administers three programs that provide vital support to workers and communities affected by unemployment: the Unemployment Insurance (UI) program; the Trade Adjustment Assistance (TAA) program; the Workforce Investment Act and related training programs, including National Emergency Grants. The Department of Labor spends $10.5 billion per year on these programs. States also contribute by paying UI benefits. This chapter presents the UI and TAA programs. The Workforce Investment Act is described in Chapter Seven.

The Unemployment Insurance Program

The mainstay of federal aid to unemployed workers is the Unemployment Insurance program, which was established in the Social

Security Act in 1935. It is designed to provide temporary, partial wage replacement to individuals who are laid off. The UI program is the first line of defense in economic downturns and provides an economic stop-gap for laid-off workers. (See Chart 4.1.)

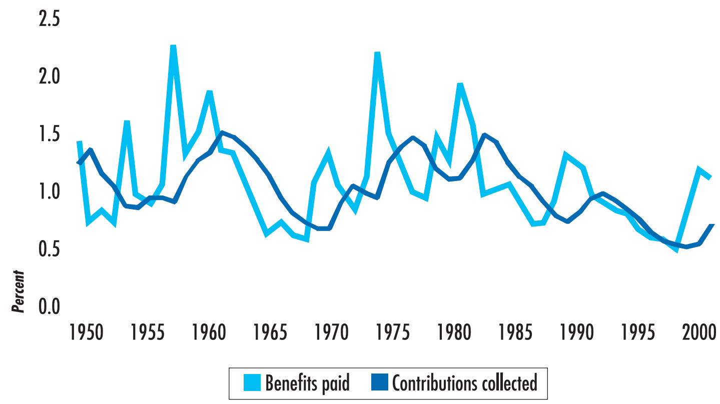
The depth and breadth of the UI program make it one of the most well known parts of our nation's safety net. Almost all wage and salary workers are covered by UI, and states generally provide up to 26 weeks of benefits. In 2003, 9.94 million unemployed workers collected benefits. The average weekly benefit amount was $262, and the average duration was 16.4 weeks. In total, $41.47 billion in regular benefits were paid. Additional benefits were provided under the Temporary Extended Unemployment Compensation program.

Special Unemployment Insurance Programs

Advances to States

When a state determines that it will have an insufficient balance to pay its unemployment benefits, the governor may request an advance from the Secretary of Labor. Following the recent economic downturn, eight states exhausted their unemployment fund balances and received federal advances. One additional state has requested and received authorization to borrow but has not done so yet.

Chart 4.1 **Revenues Collected & Benefits Paid, as a Percent of Total Wages, 1950 - 2000**



Extended Benefits

Since 1970, federal law has provided for the extension of the duration of UI benefits when states experience periods of high and rising unemployment. Upon reaching certain specified unemployment levels, states must extend benefit duration by 50 percent, up to 13 weeks of Extended Benefits, for a total of up to 39 weeks. In certain high unemployment states, unemployed workers can receive up to 7 more weeks of benefits for a total of 46 weeks. The cost of Extended Benefits is shared equally by the federal government and the states. During the last economic downturn, unemployed workers in five states received Extended Benefits. By mid-2004, state unemployment rates had fallen to levels such that no states were disbursing Extended Benefits.

Temporary Extended Unemployment Compensation

In periods of national recession, when many states are affected by high and sustained unemployment, special federally funded programs of supplemental benefits have often

been adopted. In March 2002, the Temporary Extended Unemployment Compensation (TEUC) program was established. Upon exhaustion of regular UI benefits, eligible unemployed workers in all states received up to 13 weeks of TEUC for a total of 39 weeks of benefits. Workers in high-unemployment states were eligible for an additional 13 weeks beyond the regular 39 weeks.

Temporary Extended Unemployment Compensation for Airline & Related Workers

Because of the particularly negative effect of the downturn in the airline industry, Temporary Extended Unemployment Compensation for Airline and related workers (TEUC-A) was established in April 2003. TEUC-A provided 26 additional weeks of TEUC benefits in all states to airline and related workers who were unemployed due to the terrorist attacks on September 11, 2001, a security measure taken as a result of the attack, or the war in Iraq.

Through March 31, 2004, $23.1 billion in TEUC and TEUC-A benefits were paid to 7.8 million unemployed workers.

Reed Act Distribution

In addition to establishing TEUC in 2002, the Federal government distributed $8 billion to state accounts in the Unemployment Trust Fund (UTF) via a special Reed Act distribution. The Reed Act provides that when three federal accounts in the UTF reach their ceilings, surpluses are distributed to the states. This special distribution provided funds without regard to the federal accounts' ceilings. States were given the flexibility to use these funds to pay benefits under current law, expand benefits within certain limits, pay for UI administration, and enhance reemployment services.

According to a March 2003 report by the U.S. General Accounting Office (GAO), as a result of this distribution, nine states enacted benefit enhancements such as increasing the weekly benefit amount and modifying eligibility requirements so more recent entrants to the labor market would be eligible to receive UI benefits. The GAO report also indicates that without the Reed Act distribution, tax rates for 2003 would likely have been higher in 26 states. In addition, Department of Labor records show that five states established special programs for benefit exhausters. Finally, over $1 billion has already been appropriated for administrative purposes, including automation upgrades.

Clara M. Nickerson is currently studying to become a nurse after losing her job due to a plant relocation. As a single parent, she states that it would not be possible to do this without the Trade Program to provide training and income support.

U.S. Department of Labor
Office of National Response

Disaster Unemployment Assistance

The Robert T. Stafford Disaster Relief and Emergency Assistance Act authorizes the President to provide assistance to any individual unemployed as a result of a major disaster.

As a result of the terrorist attacks on September 11, 2001, $13.6 million in DUA benefits were provided to about 3,300 eligible individuals in New York and $310,000 was provided to about 320 eligible individuals in Virginia. In addition, DUA benefits totaling $2.9 million were provided to about 3,300 eligible individuals in North Carolina, Virginia, and Delaware because of the effects of Hurricane Isabel in September 2003.

After Hurricane Charley in August 2004, ETA administered DUA benefits in Florida. Approximately 42,000 people were expected to benefit.

Current Unemployment Insurance Initiatives

Unemployment Insurance Financial Integrity

For several years the Department of Labor has been examining ways to reform the UI program so that it reflects the 21st Century economy and workforce.

The Administration included in its 2005 budget request a three-pronged proposal that will strengthen the financial integrity of the UI program by:

(1) Curtailing unscrupulous employer tax avoidance;
(2) Improving prevention and quick detection of benefit overpayments; and
(3) Collecting past overpayments by offsets from federal income tax returns.

The first two have been passed by Congress.

Reducing Tax Avoidance

On August 9, 2004, the President signed the SUTA Dumping Bill that closed a loophole in many state UI laws that allows some employers to pay less than their fair share of state unemployment taxes.

All states calculate employers' unemployment tax rates based on experience. If an employer has a stable workforce with few layoffs, the charges and tax rate are low. Employers with higher turnover generally pay higher taxes up to a maximum set by state law.

Over the past several years, some employers have found ways to manipulate their experience rating so that they pay lower state UI taxes than

they should based on their UI benefit experience. For example, some create a new "shell" company that establishes a lower UI tax rate, and then transfer some or all of their payroll to the new company. This abusive practice is commonly called "SUTA dumping" ("SUTA" refers to state unemployment tax acts).

SUTA dumping can deprive states of revenues they need to provide workers the unemployment benefits to which they are entitled under state law, and it shifts some benefit costs to other employers. Enactment of this proposal is projected to result in UI tax payments of over $200 million per year from employers who would otherwise engage in SUTA dumping.

National Directory of New Hires Database

On the other side, workers sometimes receive unemployment benefit overpayments. Detection and prevention of improper UI payments is a high priority for the Administration because these overpayments are a drain on the state UI trust funds, threatening benefits of needy unemployed workers. The Department's Employment and Training Administration reached an agreement with the Social Security Administration granting states access to the SSA database, and giving SSA access to UI wage records.

To further assist states to prevent or quickly detect UI benefit overpayments, the Administration proposed legislation allowing states access to data in the National Directory of New Hires—a database maintained for child support enforcement purposes. Employers are required to swiftly provide information on all new hires for inclusion in the database. Many states are already using their State Directories of New Hires for quick detection of individuals who have gone back to work but continue to claim UI benefits.

However, state officials did not have access to new hires reported to other states. The Administration's proposal would remedy this problem by giving all states access to the National Directory of New Hires. The database also contains information from multi-state employers who choose to report new hires to a single state and wage/new hire information from federal agencies (civilian and military). This access would reduce improper payments by $371 million over the next ten years.

Tax Offset for UI Overpayments

When UI beneficiaries receive benefits to which they were not entitled under state law, they drain state unemployment accounts of funds needed for eligible workers. For this reason, the Department of Labor wants to give states another tool to help them recover overpayments and strengthen their funds. The Department of the Treasury already matches and deducts delinquent debts owed to various government agencies against federal income tax refunds. The Administration proposed adding UI benefit overpayments to the list of debts that can be recovered from federal income tax refunds.

Enactment of this proposal is estimated to result in recovery of approximately $3 billion in UI overpayments over the next ten years.

Trade Adjustment Assistance (TAA) provides a variety of reemployment services and benefits to workers whose jobs have been adversely affected by foreign trade.

Trade Adjustment Assistance

Trade Adjustment Assistance (TAA) provides a variety of reemployment services and benefits to workers whose jobs have been adversely affected by foreign trade. The TAA program helps laid-off workers obtain new employment with earnings comparable to their prior jobs. The program is critical to helping trade-affected workers adjust to changing market conditions and shifting skill requirements.

Eligible trade-affected workers may receive reemployment services, job search and relocation allowances, health insurance coverage assistance, wage insurance, job training, and up to 104 weeks of income support beyond unemployment insurance.

In 2002, the President signed the Trade Act which expanded TAA benefits to include the following: new subsidies for qualified health insurance (a 65 percent advanceable and refundable tax credit for health insurance coverage); a wage subsidy for certain older workers (50 percent of the difference between their new salary and old salary for two years up to $10,000); longer periods of eligibility for income support benefits; and coverage of "secondary workers" who were employed by companies connected to firms adversely affected by trade and whose workers are eligible for TAA benefits.

In FY 2003, about 48,000 trade-affected workers received almost $340 million in income support, and approximately 47,000 individuals entered training programs with $220 million spent for their benefit. In 2004, management reforms were undertaken to reengineer and speed processes so that the review of petitions is completed within a 40-day time frame.

Conclusion

Department of Labor programs play a critical role in protecting America's workers from the temporary negative effects of economic change. Through more responsive delivery of aid and a vision aimed at identifying employers' needs for the 21st Century, the Department can help better prepare America's workers for new opportunities in our dynamic and competitive global economy. As we face new challenges, the Department of Labor will continue to help American businesses develop the workforce of the future and set the nation's workers on rewarding career paths that ensure economic self-sufficiency.